Universities Shoulder Billions in Hidden Research Costs, New Report Warns

By Mark Davis, Gil Tran, and Michael Leonard

On Friday evening of February 7, 2025, the NIH announced a new policy to restrict the indirect cost rate at 15% for all its research grants, effective on Monday, February 10, 2025. On social media platform X, the NIH estimated that the cap would save $4 Billion a year immediately. Elon Musk, the head at Department of Government Efficiency (DOGE) at the time, added on X: "Can you believe that universities with tens of billions in endowments were siphoning off 60% of research award money for "overhead"? What a ripoff." The Department of Energy, the National Science Foundation and the Department of Defense followed suit and implemented their own proposed cap at 15% for all their research grants. Certainly, these actions prove that both policymakers and even university faculty are skeptical about the validity, composition, and the necessity of indirect costs for the research.

A new January 2026 report prepared by Attain Partners for the Association of American Universities (AAU) and the Council on Governmental Relations (COGR) sheds light on a long standing but poorly understood problem in the U.S. research ecosystem: the chronic under recovery of indirect costs at American universities conducting federally funded research. Despite decades of refinement in federal cost reimbursement policy, the report finds that universities continue to subsidize billions in research expenses that other research performers—namely, private industry laboratories and federal/national labs—recover far more fully.

At the center of the analysis is the complex system for reimbursing facilities and administrative (F&A) costs, sometimes called indirect costs. These costs include utilities, building and equipment depreciation, research administration, compliance requirements, operations & maintenance, and other institutional infrastructure essential to conducting research. While often invisible to the public—and misunderstood by policymakers, the magnitude and inequitable treatment of indirect costs have far-reaching implications for the nation's research capacity.

A Financial Burden Growing in Silence

Universities already pay the bulk of research infrastructure costs up front, from constructing or renovating laboratory buildings to funding utilities, IT security, and administrative support. Under the current system, they recover only part of those expenses through negotiated indirect cost rates. And that recovery falls far short of actual cost.

The report highlights a staggering figure: In FY 2023, universities incurred $6.8 billion in indirect costs that were never reimbursed, a number that excludes the amount lost due to the long-standing federal cap on administrative reimbursements. Since 1991, universities have been prohibited from recovering more than 26% of modified total direct costs for administrative expenses—even though actual calculated and supported administrative rates often exceed 36%. These restrictions apply to universities alone; neither private industry nor federal labs face analogous limits.

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This systemic underfunding has ripple effects, especially for emerging research institutions that lack the economies of scale of larger research-intensive universities. In the meantime, compliance burdens, operational costs, and the inflation rate have grown sharply over time, but the cap has remained unchanged for 35 years.

A recent article, "Fully Accounting for America's Research Investments" by Nicholas S. Wigginton, Associate Vice Provost for Research at Johns Hopkins University, argues that universities significantly underreport their substantial financial and institutional contributions to the U.S. research enterprise and calls for better metrics, transparency, and coordinated efforts to fully account for these investments. The author recommends the consideration of the Financial Accountability in Research (FAIR) model developed by the Joint Associations Group to replace today's reimbursement systems for facilities and administrative costs.

Federal and National Labs: A Different Playing Field

In stark contrast, federal and national laboratories, whether government owned and government operated (GOGO) or government owned and contractor operated (GOCO), receive far more comprehensive cost coverage. The GOGO and GOCO laboratories are either fully or partially owned and equipped by the federal government but operated by for-profit companies, nonprofit organizations or universities.

These labs often have their buildings, utilities, research equipment, and operational costs funded directly and up front by the federal government, not recovered incrementally through indirect cost rates. For example, DOE national labs received over $1.5 billion in FY 2022 for facility upgrades alone. This structure inherently removes the financial pressures research institutions face when paying upfront for their research infrastructure.

Because these labs do not carry dual research and instruction missions—as universities must—their cost allocation models also allow them to recover space and operations costs more completely.

Private Industry Laboratories: Flexibility and Full Cost Recovery

The report also finds that private industry research contractors operate under an entirely different framework—one that gives them greater flexibility, fewer caps, and frequently higher effective reimbursement rates.

Under federal acquisition regulations (FAR) and cost accounting standards (CAS), industry can classify costs in ways that reflect their unique business models. They can charge marketing, IR&D, higher executive salaries, and profit—all unallowable or tightly capped for universities.

Crucially, there is no 26% administrative cap in industry, and organizations can use accelerated depreciation methods to recover capital expenditures more quickly. As a result, Attain Partners concludes that universities' effective indirect reimbursement rates are lower than those of private industry—even before accounting for universities' unrecovered administrative costs.

Are Private Universities Gaming the System? The Data Says No.

Public debates and policymakers' testimonies often suggest that private universities obtain higher indirect cost rates than their public counterparts. As support for its proposed cap, the NIH X posting on February 7 listed only three private universities with indirect cost rates higher than 60%. The Attain Partners study directly rebuts this misconception.

Both public and private universities follow the same federal rules, undergo the same audits, and negotiate rates with the same cognizant agencies—either the Department of Health and Human Services' Cost Allocation Services or the Office of Naval Research. The study found that variations in rates stem not from favoritism or system abuse but from:

- **Geographic cost differences** (e.g., Boston-area biomedical research campuses with higher real estate and utility costs)
- **Different mixes of research** (labor intensive vs. equipment intensive research disciplines)
- **Varying state subsidies** (public institutions may have building maintenance paid directly by the state, reducing their rate)
- **Investment in rate development infrastructure** (data systems, specialized staff, and consultants)

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INSTITUTIONS OF HIGHER EDUCATION R&D FUNDING according to 2024 HERD SURVEY		
Selection	Count	
	Private	*Public*
TOP 50 R&D FUNDING RANKING		
1 – 25	10	15
1 – 50	18	32
HIGHEST INDIRECT COST RATES FOR TOP 50 RANKING		
1 – 25	13	12
1 – 50	18	32

In fact, the report shows that among the top 50 research universities, there is little evidence that indirect cost rates are significantly higher at private universities than public universities. See chart.

A System at a Breaking Point

The urgency of this analysis is amplified by recent 2025 proposals from NIH, DOE, NSF, and DOD to cap all indirect cost rates at 15%—a move the report warns would "cripple U.S. research endeavors." Such a cap would slash reimbursements far below what universities already spend, further shifting the financial burden onto institutions and jeopardizing their ability to sustain research infrastructure.

The Attain Partners report concludes bluntly: Universities are subsidizing the federal research enterprise at levels that are neither transparent nor sustainable. Without modernization of cost reimbursement policy—and reconsideration of long-standing caps—the nation risks undermining the very ecosystem that produces scientific breakthroughs, trains the STEM workforce, and fuels American innovation.

Recommendations

To preserve U.S. leadership in science, innovation, national security, and research workforce development, and considering the report's findings, Attain Partners recommends research leadership takes the following actions:

- Continue to educate all research stakeholders, particularly the policy makers on the composition and the necessity of indirect costs.
- Contact your members of Congress to highlight the significant indirect research costs your university already absorbs and to underscore the risks posed by any further reductions.
- Review your current indirect cost allocation methods and recharge-center cost structures to determine whether more effective approaches exist for recovering the full, true costs of conducting research.
- Stay alert and acquire full comprehension on any proposed indirect cost models such as the FAIR model (proposed by the Joint Associations Group) or a possible new OMB indirect cost model.

References

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